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SUBJECT: Honduran Economic Highlights: April-June 2004

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----- Paris Club and USG Provide Interim Debt Relief -----

1. On April 14, Paris Club creditors and the GOH agreed to a restructuring of Honduras' public external debt, leading to the cancellation of approximately \$147 million of Honduran debt, and the rescheduling of \$214 million more (see reftel). Under the agreement reached between Paris Club participating creditors and a Honduran delegation led by the Minister of Finance Arturo Alvarado, total Honduran debt service due to Paris Club creditors between January 1, 2004, and June 30, 2005, was reduced from \$405 million to approximately \$49 million. As a participant in the HIPC (Heavily Indebted Poor Countries) initiative, Honduras was granted "Cologne terms": 90 percent cancellation of pre-1990 debt.

2. Following the collective agreement with its Paris Club creditors in April, the GOH has begun to negotiate bilateral agreements with these creditors individually. The first of these bilateral agreements to be negotiated and signed was with the USG. On June 1, Charge d'Affaires Roger Pierce and Minister Alvarado signed an agreement which forgives over \$55 million in official debt service payments owed by the GOH to the USG. The U.S. agencies included in the agreement are USAID, DOD, USDA, and the Ex-Im Bank. The USG went beyond the required Cologne terms by offering 100 percent cancellation of pre-1999 debt. Acting President Vicente Williams presided over the signing ceremony and reaffirmed in strong terms the GOH's full commitment to use these funds for poverty reduction, as envisioned in the HIPC initiative.

3. The agreement was delivered to the U.S. Congress on June 18. After a 30-day notification period, the agreement entered into force on July 8, ahead of a DOD payment due July 15 that, if not paid, would have triggered Brooke sanctions. The GOH is currently negotiating bilateral agreements with Spain and France, and must conclude negotiations with all of its bilateral creditors by October.

----- Minimum Wage Increase -----

4. After months of negotiations, the government, the private sector, and labor unions finally reached an agreement on April 19 on a new minimum wage. The increase varies between nine and twelve percent, depending on the activity and the number of employees of a given company. The new average minimum salary will be 2,212 Lempiras per month (approximately \$122 per month), up 7.3 percent from the 2003 level of 2,050 Lempiras per month (\$113). The increase is retroactive only to April 1 of this year, not to January 1 as unions had requested.

5. During the negotiations, the parties agreed in principle

to include in a new Minimum Salary Law clear mechanisms to determine future revisions to the minimum wage, starting in 2005. These mechanisms would be based on production parameters of each sector, the inflation and devaluation rates, and the economic growth of the country. The law would have to be approved by Congress by September 30 of this year in order to be in place for next year's negotiations.

High Gas Prices Continue to Pinch

16. High gas prices, the result of an increase in the tariff on fuel imposed at the end of 2003 as well as the high world price of oil, continue to cause discontent among Hondurans and a political headache for the GOH, even as world prices eased somewhat in June. Honduras continues to have the highest oil prices in Central America: at the end of May, a gallon of super gasoline in Honduras cost \$3.08, while in Costa Rica the price was \$2.29, in Nicaragua \$2.27, in El Salvador the price was \$2.06, and in Guatemala \$2.05. The much-ballyhooed Presidential Commission on fuel prices, established in March by President Maduro with representation from the government, private sector, and civil society, has had little effect.

17. In reaction to the high prices, the Honduran government ordered a 10 percent reduction in fuel consumption by its branches, and restricted the circulation of government vehicles. Among the new regulations is an order that government vehicles with license plates ending in an even number may only be used Monday, Wednesday, and Friday, while those with plates ending in an odd number may be used Tuesday and Thursday - though this regulation has not been enforced.

18. In late May, the increasing price of jet fuel was blamed for an increase in the prices of airline tickets. According to Armando Funez, president of the Honduran Airlines Association, airline operation costs were increasing due primarily to high fuel prices. However, some in the tourism industry suggested that international airlines would raise ticket prices in any case to take advantage of the high season for tourism and international travel.

Port Security

19. From June 14-18, a U.S. Coast Guard port security team visited Honduras; this was the first such port security assessment visit in the Western Hemisphere. The team came to assess Honduras' implementation of the new, more stringent port security standards under the International Ship and Port Facility Security Code (ISPS). It reviewed security practices at five national ports, met with the national commission on port security, and discussed Honduran port security regulations with the national port security authority, which was recently created to comply with the ISPS. The USCG team reported that it had identified several innovative and efficient security practices that it would carry back to the port facilities in the U.S. as "best security practices". The USCG team also lauded Honduras for being a port security leader for hosting the first USCG verification visit in the region.

110. On July 1, the official international deadline established by the Maritime Transportation Security Act of 2002, the GOH reported to the IMO (International Maritime Organization) that it has security assessments and plans in place for all but one of its national ports, thereby declaring these ports certified. The only exception was the small port at La Ceiba, which is expected to be certified in July.

Money Laundering Convictions in Captain Ryan Case

11. Due in part to unprecedented regional law enforcement cooperation, the government of Honduras won guilty verdicts for money laundering against the four principal defendants in the Captain Ryan case. This is only the second-ever successful prosecution of a drug-related money laundering seizure case in Honduras. The Captain Ryan maritime vessel was seized by members of the INL-funded elite unit and the Frontier Police in December 2002 as it was departing a Honduran port. The defendants face a sentence of 16 to 20 years; they will be sentenced in mid-July. Furthermore, the \$467,000 found on board the ship, and other assets seized at the time of arrest, including the ship itself, were ordered forfeited by the tribunal. Three unwitting crewmen were found innocent and released after having spent almost 7 months in jail. Several potential witnesses were murdered in the run-up to the trial.

12. The verdict was aided by joint cooperation between INL offices at Embassy Panama and Tegucigalpa. Embassy Panama provided a timely assist in funding travel so that Panamanian police and prosecutors could share critical evidence with Honduran authorities and receive practical training in a money laundering prosecution. In addition, this case was one of the top priority cases being supported by the anti-money laundering technical assistance project, funded by INL and the U.S. Treasury Department.

Ex-Banhcreser Board Member Captured in Florida

13. Honduran police gained access to Florida territory in order to facilitate the capture of Caupolican Zuniga Maradiaga, one of the principal board members of the Honduran Credit and Service Bank, Banhcreser, which failed in 2001 amidst allegations of corruption and wrongdoing. Zuniga was captured in Broward County, Florida on May 23. The 56 year-old banker, who held the position of general manager, was charged with the crime of continued fraud against Banhcreser depositors. He is specifically accused of having acted improperly by transferring \$3.7 million dollars in Banhcreser deposits to a U.S. bank account, then establishing a line of credit for a shell company using those deposits as collateral. The Honduran government is working towards extraditing Zuniga to Honduras. The Attorney General, Ovidio Navarro, has requested that the embassy assist with the extradition process. Zuniga is a U.S. resident.

Governors Bush, Perdue Vie for FTAA Support

14. Governor Jeb Bush of Florida and Governor Sonny Perdue of Georgia visited Honduras in immediate succession during the first week of June. The Governors were seeking Honduras' support for the selection of Miami and Atlanta, respectively, to be the headquarters of the FTAA.

15. Governor Bush visited first, making up for a visit that had been planned for February, but that was cancelled when poor weather conditions and malfunctioning navigational equipment at Tegucigalpa's main airport prevented his plane from landing. Governor Bush was accompanied by a delegation of 19 Florida businessmen, as well as representatives of "FTAA Florida", the organization pushing for Miami's selection as the FTAA headquarters. President Maduro, who was Bush's friend and college classmate at Stanford University, received Governor Bush warmly and hosted a lunch in his honor at the Presidential Palace. Other members of the delegation met with a group of Honduran ministers and discussed CAFTA, tourism, port security, and other issues. At a press conference held on June 2, Maduro publicly declared his support for Miami to be chosen as the FTAA headquarters.

16. The day after Governor Bush's departure, Governor Sonny Perdue of Georgia visited San Pedro Sula with a small group of advisers. Governor Perdue met privately with Minister of Industry and Trade Norman Garcia, and had breakfast with a group of business leaders from northern Honduras. He also met with President Maduro on the margins of a dinner event on June 3. In each meeting, he acknowledged that Maduro had already pledged his support to Miami, but continued to push for Atlanta as the FTAA seat, and stressed the benefits of Atlanta as a city from which to conduct business in the United States.

Restrictions Lifted on U.S. Beef

17. On May 31, the Ministry of Agriculture and Livestock signed a decree lifting the restrictions on beef imported from the United States. The restrictions were put in place in December 2003 as a result of the case of mad cow disease identified in Washington state. The process of lifting the restrictions began when OIRSA (International Regional Organization of Plant and Animal Health) gave a preliminary recommendation to Central American governments that restrictions be lifted. Following this recommendation, the Honduran government reviewed the several USDA documents citing U.S. advances in monitoring and surveillance and other protective measures. After review and analysis of the documents, Honduras agreed that the risk was minimal, resulting in the complete lifting of the restrictions which had been imposed.